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STATE OF CONNECTICUT
DEPARTMENT OF REVENUE SERVICES

IP 2004(10)

INFORMATIONAL PUBLICATION

**Fisherman's Guide to Sales and Use Taxes
and Estimated Income Tax**

Purpose: This Informational Publication describes the procedures fishermen must follow to apply for a Commercial Fisherman Tax Exemption Permit and explains the purchases and leases that are exempt from sales and use taxes. The publication also describes the rules for fishermen to make estimated personal income tax payments and discusses new legislation for start-up fishermen.

Effective Date: Effective October 1, 2003.

Statutory Authority: Conn. Gen. Stat. §12-412(18) and 12-412(40), as amended by PA 03-225, §9, and Conn. Gen. Stat. §12-722.

Commercial Fisherman Exemptions: Conn. Gen. Stat. §12-412(18) exempts from sales and use taxes materials, rope, fishing nets, tools and fuel, or any substitute, which are used directly in the fishing industry.

Conn. Gen. Stat. §12-412(40) exempts from sales and use taxes any vessel used exclusively in commercial fishing and any machinery or equipment used on a commercial fishing vessel. The exemption applies if, in the calendar year immediately preceding the date of purchase, storage or use, not less than 50% of the purchaser's gross income was derived from commercial fishing. The exemption is also available for an applicant who is starting a new commercial fishing business and intends to carry on commercial fishing as a trade or business for at least two years.

Definitions:

- **Fishing industry** means the catching, gathering, and processing of fish solely as a regular commercial business.
 - **Commercial fisherman** means any person, firm or corporation engaged in commercial fishing.
 - **Commercial fishing** means taking or attempting to take any finfish, crustacea, sea scallops, squid, horseshoe crabs, or bait species for commercial purposes or by the use of any commercial fishing gear.
 - **Commercial fishing vessels** include any vessel with a certificate of documentation issued by the United States Coast Guard for coastwise fishery.
- Exempted Items:** Items exempted under Conn. Gen. Stat. §12-412(18) and 12-412(40) include, but are not limited to:
- a. Twine items (fish netting, ropes, and similar items used in fish nets), trawls, traps, hooks, lures;
 - b. Dry or natural ice;
 - c. Winches and deck equipment (tow wire, cable, tackle rope, links, shackles, nets, twine, rings, sweep ropes, chain);
 - d. Fasteners;
 - e. Fuel (kerosene, gas, diesel oil, lube oil, grease, LP gas);
 - f. Propulsion (flax packing);
 - g. Nets and underwater gear (needles);
 - h. Tools (shovels, ice clippers);
 - i. Accessories and miscellaneous (bands, rubber and friction tape, distilled water, knives, picks, scallop bags, forks);
 - j. Commercial fishing vessels including daily fishing party charter boats; and
 - k. Fishing equipment for use on or in connection with the vessels, including but not limited to, equipment necessary for the propulsion or navigation of the vessel (engines, propellers, radar, loran, radio telephones, global positioning systems, and similar equipment), and fish tracking equipment.

Items **not** qualifying for exemption under Conn. Gen. Stat. §12-412(18) and 12-412(40) include but are not limited to:

- a. Repair and replacement parts for vessels or equipment; and
- b. Raw materials (lumber, steel, etc.) to be used in the construction of vessels or equipment, unless being constructed to be sold.

Application Procedure for a Commercial Fisherman Tax Exemption Permit: Commercial fishermen must complete and file **Form REG-14, Application for Commercial Fisherman Tax Exemption Permit**, with the Department of Revenue Services (DRS) to claim the exemption.

To apply, attach a copy of your prior year federal income tax return and any federal income tax return schedules (for example, Schedule C) used to report the gross income and expenses from commercial fishing to the application.

A fisherman who changes his or her address, or changes the business structure, must apply for a new **Form OR-256, Commercial Fisherman Tax Exemption Permit**, by submitting a new **Form REG-14** and attaching the old permit. If approved, DRS will issue you **Form OR-256**. If the assets of the business are transferred as part of forming a new entity, the new entity must reapply in its own name even if the owner(s) of the new entity remain the same.

Example: A fisherman who operates his commercial fishing business as a sole proprietorship and holds a *Commercial Fisherman Tax Exemption Permit* forms an LLC and transfers the business to it. The LLC must apply for a new *Commercial Fisherman Tax Exemption Permit*. The applicant should also attach a written explanation of its relationship to the former permit holder.

Permit: A permit is effective from July 1 or the date it is issued, whichever is later. DRS issues exemption permits every two years. Permits issued in 2003 with an effective date of July 1, 2003, or later will expire June 30, 2005.

A permit may not be transferred or assigned to anyone and is null and void upon the termination of commercial fishing by the original applicant. When a fisherman ceases commercial fishing, the permit must be returned to DRS.

Special Requirements for the Start-Up Fisherman:

Conn. Gen. Stat. §12-412(40) relieves a start-up commercial fisherman of the 50% previous year gross income threshold requirement. Effective October 1, 2003, to qualify for a *Commercial Fisherman Tax Exemption Permit*, the start-up fisherman must satisfy the following requirements:

- a. The fisherman intends to carry on commercial fishing as a trade or business for at least two years after each purchase of a vessel, machinery or equipment; **and**
 - b. At least 50% of the fisherman's gross income, as reported for federal income tax purposes, must have been from commercial fishing in the year immediately preceding the taxable year; **or**
- For the two immediately preceding years, at least 50% of the fisherman's average gross income, as reported for federal income tax purposes, must have been from commercial fishing.

If the start-up fisherman does not meet the requirements, the fisherman will be liable for the sales or use tax that would have been due on any purchase during the two-year period and may not make any more exempt purchases as a start-up fisherman.

Estimated Income Tax: If you are a fisherman who is required to make estimated income tax payments, you are required to make only one payment. Your installment is due on or before January 15 following the end of the taxable year. The required annual payment for fishermen is the lesser of:

- a. **66 2/3%** of the income tax shown on your **current year's** Connecticut income tax return; or
- b. **100%** of the income tax shown on your **prior year's** Connecticut income tax return, if you filed a Connecticut income tax return for the prior year that covered a 12-month period.

If, on or before March 1 following the end of the taxable year, you file a Connecticut income tax return and pay the full amount of tax due, you will not be subject to interest for not paying estimated tax.

For Connecticut income tax purposes, an individual is a fisherman for any taxable year if the individual is a fisherman as defined in I.R.C. §6654(I)(2) for the taxable year.

Related Forms and Publications: For related forms or publications please request:

- **Form REG-14**, *Application for Commercial Fisherman Tax Exemption Permit*
- **Informational Publication 2003(28)**, *Getting Started in Business: Understanding Connecticut Taxes*
- **Informational Publication 2003(34)**, *Business Taxes*
- **Special Notice 2000(2)**, *Application of Sales and Use Taxes to Vessels*
- **Form AU-724a**, *Motor Vehicle Fuels Tax Refund Claim, Gasoline, Off Highway*
- **Form AU-724b**, *Motor Vehicle Fuels Tax Refund Claim, Diesel, Off Highway*

Effect on Other Documents: **Informational Publication 2003(13)**, *Fisherman's Guide to Sales and Use Taxes and Estimated Income Tax*, is superseded and may not be relied upon after the date of the issuance of this Informational Publication.

Effect of This Document: An Informational Publication addresses frequently asked questions about a current position, policy, or practice, usually in a less technical question and answer format.

For Further Information: Call DRS during business hours, Monday through Friday:

- **1-800-382-9463** (in-state), or
- **860-297-5962** (from anywhere)

TTY, TDD, and Text Telephone users only may transmit anytime by calling 860-297-4911.

Forms and Publications: Forms and publications are available anytime by:

- **Internet:** Preview and download forms and publications from the DRS Web site at www.ct.gov/DRS
 - **DRS TAX-FAX:** Call **860-297-5698** from the handset attached to your fax machine and select from the menu.
 - **Telephone:** Call **860-297-4753** (from anywhere), or **1-800-382-9463** (in-state) and select **Option 2** from a touch-tone phone.
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Paperless Filing Methods (fast, easy, free, and confidential):

- **For business returns:** Use **Fast-File** to file sales and use taxes, business use tax, room occupancy tax, or withholding tax returns over the Internet or telephone. Visit the DRS Web site at www.ct.gov/DRS and click on **File Returns On-Line** or call **860-947-1988**.
 - **For resident income tax returns:** Use **WebFile** to file personal income tax returns over the Internet. Visit the DRS Web site at www.ct.gov/DRS and click on **File Returns On-Line**.
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